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UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA

FOURTH AGE LIMITED, a United Kingdom corporation; PRISCILLA MARY ANNE REUEL TOLKIEN, as TRUSTEE OF THE TOLKIEN TRUST, a United Kingdom Charitable Trust; THE J.R.R. TOLKIEN ESTATE LIMITED, a United Kingdom corporation; HARPERCOLLINS PUBLISHERS, LTD., a United Kingdom corporation; UNWIN HYMAN LTD., a United Kingdom corporation; and GEORGE ALLEN & UNWIN (PUBLISHERS) LTD., a United Kingdom corporation,

Plaintiffs,

v.

WARNER BROS. DIGITAL DISTRIBUTION, INC., a division of WARNER BROS. HOME ENTERTAINMENT, INC., a Delaware corporation; WARNER BROS. ENTERTAINMENT, INC., a Delaware corporation, as successor-in-interest to New Line Cinema Corp.; WARNER BROS. CONSUMER PRODUCTS, INC., a Delaware corporation; WARNER BROS. INTERACTIVE ENTERTAINMENT, INC., a division of WARNER BROS. HOME ENTERTAINMENT, INC.; NEW LINE PRODUCTIONS, INC., a California corporation; THE SAUL ZAENTZ COMPANY d/b/a Middle-earth Enterprises, a Delaware corporation; and DOES 1-10, inclusive,

Defendants.

Case No. CV 12-09912  
ABC (SHx)

Audrey B. Collins

**NOTICE OF MOTION  
AND MOTION TO  
DISMISS FIRST  
AMENDED  
COUNTERCLAIMS  
OF THE WARNER  
PARTIES**

[F.R.C.P. 12(b)(6)]

**[Special Motion to  
Strike filed  
concurrently herewith]**

Date: May 13, 2013  
Time: 10:00 a.m.  
Courtroom: 680

1 AND RELATED COUNTERCLAIMS.

3 TO ALL PARTIES AND THEIR ATTORNEYS OF RECORD:

4 PLEASE TAKE NOTICE THAT on May 13, 2013, at 10:00 a.m. or as soon  
 5 thereafter as counsel may be heard in Courtroom 680 of the above-entitled Court,  
 6 located at the Roybal Federal Building, 255 East Temple Street, Los Angeles, CA  
 7 90012, Plaintiffs and Counterclaim Defendants Fourth Age Limited, Priscilla Mary  
 8 Anne Reuel Tolkien, as Trustee of the Tolkien Trust, The J.R.R. Tolkien Estate  
 9 Ltd., Harper Collins Publishers, Ltd., Unwin Hyman Ltd. and George Allen &  
 10 Unwin (Publishers), Ltd. (collectively, the "Tolkien/HC Parties") will, and hereby  
 11 do, move the Court to dismiss the purported First Amended Counterclaims of  
 12 Defendants and Counterclaimants Warner Bros. Home Entertainment, Inc., Warner  
 13 Bros. Entertainment, Inc., Warner Bros. Consumer Products Inc. and New Line  
 14 Productions, Inc. (collectively, the "Warner Parties"), with prejudice and without  
 15 leave to amend, pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure.

16 The Motion is made on the grounds that: (1) the Warner Parties' Amended  
 17 First Counterclaim for Breach of Contract fails to state a claim upon which relief  
 18 can be granted, because the Warner Parties do not and cannot allege sufficient facts  
 19 to support a claim under any cognizable legal theory; (2) the Amended First  
 20 Counterclaim is absolutely barred by the litigation privilege under California Civil  
 21 Code section 47(b); and (3) the Amended Second Counterclaim for Declaratory  
 22 Relief is redundant and duplicative, in that it unnecessarily seeks declarations on  
 23 issues already before the Court by virtue of the Tolkien/HC Parties' Complaint and  
 24 the Warner Parties' affirmative defenses.

25 The Motion is based on this Notice of Motion and Motion, the attached  
 26 Memorandum of Points and Authorities, the concurrently filed Special Motion to  
 27 Strike the Warner Parties' Amended First Counterclaim Pursuant to California  
 28 Code of Civil Procedure section 425.16, the records, pleadings and papers on file in

1 this action, any reply papers that may be filed in connection herewith, and on such  
2 other evidence and argument as may be presented to the Court at or before the  
3 hearing on this matter.

4 This Motion is made following a telephonic conference of counsel for the  
5 parties pursuant to Local Rule 7-3, which took place on March 14, 2013.

6  
7 DATED: March 28, 2013

GREENBERG GLUSKER FIELDS  
CLAMAN & MACHTINGER LLP

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10 By: /s/ Bonnie E. Eskenazi  
BONNIE E. ESKENAZI (SBN 119401)

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## MEMORANDUM OF POINTS AND AUTHORITIES

### I. INTRODUCTION

On November 19, 2012, Plaintiffs and Counterclaim Defendants Fourth Age Limited, Priscilla Mary Anne Reuel Tolkien, as Trustee of the Tolkien Trust, The J.R.R. Tolkien Estate Ltd., Harper Collins Publishers, Ltd., Unwin Hyman Ltd. and George Allen & Unwin (Publishers), Ltd. (collectively, the “Tolkien/HC Parties”) filed their Complaint against Defendants Warner Bros. Digital Distribution, Inc., Warner Bros. Entertainment Inc., Warner Bros. Consumer Products Inc., Warner Bros. Interactive Entertainment, Inc., New Line Productions, Inc. (collectively, the “Warner Parties”) and The Saul Zaentz Company (“Zaentz”), asserting claims for copyright infringement, breach of contract and declaratory relief (the “Complaint”). The dispute involves merchandising rights in and to Professor J.R.R. Tolkien’s seminal literary works *The Lord of the Rings* and *The Hobbit* (the “Tolkien Works”).<sup>1</sup> The Complaint alleges that defendants exceeded the scope of the limited merchandise rights licensed to their predecessors-in-interest by the Tolkien/HC Parties’ predecessors-in-interest. Specifically, the Complaint alleges that the defendants, among other things, improperly developed, licensed and/or sold gambling games (both over the Internet and in brick-and-mortar casinos) and video games based on the Tolkien Works that are delivered otherwise than by way of physical media such as DVD or cartridge, including (but not limited to) games delivered by way of electronic download, mobile telephone networks or social media websites (the “Intangible Video Games”).

Rather than simply answering the Complaint and asserting any colorable affirmative defenses, the Warner Parties filed counterclaims asserting: (i) a purported claim for breach of contract that attempts to sue the Tolkien/HC Parties

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<sup>1</sup> The Tolkien/HC Parties are the successors to J.R.R. Tolkien with respect to his copyright interests in and to the Tolkien Works.



1 for asserting claims in this action; and (ii) a second count for declaratory relief that  
2 is purely derivative of the Warner Parties' affirmative defenses and the declaratory  
3 relief claim asserted by the Tolkien/HC Parties in their Complaint.

4 The Warner Parties' Amended First Counterclaim is devoid of any factual  
5 allegation showing that the Tolkien/HC Parties refused to perform the entirety of  
6 the relevant agreements. To the contrary, the Warner Parties' own allegations  
7 establish that they have been exploiting the fruits of the contracts for decades, and  
8 that the parties now have a dispute as to the scope of the parties' respective  
9 contractual rights. (First Amended Counterclaim ("FACC"), ¶¶ 3-4, 21-29, 33, 39-  
10 40). Even if the Warner Parties' contract interpretation differs from that of the  
11 Tolkien/HC Parties, the Tolkien/HC Parties' position and alleged conduct plainly  
12 springs from an attempt to *enforce* the relevant contract and their reserved rights  
13 thereunder, not to repudiate it.

14 What, then, is the true crux of the Warner Parties' counterclaim? The  
15 Warner Parties complain that without any legitimate justification for doing so, the  
16 Tolkien/HC Parties have, in pre-litigation and litigation communications, asserted  
17 claims which challenge the scope of Zaentz's and the Warner Parties' rights. Put  
18 another way, the Warner Parties have sued the Tolkien/HC Parties simply for suing  
19 them.

20 The Warner Parties' claims are patently absurd. The Warner Parties have no  
21 present claim for any relief at all, let alone a viable contractual claim for breach of  
22 contract. The alleged wrongdoing — the purported bad faith assertion of claims  
23 against the Warner Parties in litigation and pre-litigation communications — is not  
24 actionable other than as a claim for malicious prosecution at the appropriate time,  
25 provided all of the stringent prerequisites for such a claim can be met (they cannot).  
26 The Warner Parties should not be allowed to avoid the protective limitations placed  
27 on pleading malicious prosecution simply by changing the label of their claim for  
28 relief. Indeed, the courts have consistently rejected such attempts.

1           Additionally, the purported conduct about which the Warner Parties  
2 complain is absolutely privileged under the litigation privilege codified in  
3 California Civil Code section 47. The Warner Parties' Amended First  
4 Counterclaim for breach of contract is exactly the type of claim the litigation  
5 privilege was designed to prohibit.

6           Apparently aware that its claim is fatally flawed, the Warner Parties amended  
7 their original counterclaim after the Tolkien/HC Parties announced their intention  
8 to file Motions to Dismiss and to Strike and discussed with the Warner Parties'  
9 counsel the merits of those motions in accordance with Central District Local Rule  
10 7-3. Hoping to avoid such dispositive pleading motions, the Warner Parties simply  
11 omitted their prior charging allegations — which complained that the Tolkien/HC  
12 Parties have breached the contract by “challenging” the Warner Parties' rights and  
13 “denying” that they have the right to exploit gambling games or Intangible Video  
14 Games based on the Tolkien Works— and replaced them with vague allegations of  
15 “repudiation.” As is set forth below, the Warner Parties cannot breathe life into  
16 their flawed counterclaim simply by omitting relevant facts which made the prior  
17 pleading legally and fatally defective. There has been no repudiation; the so-called  
18 “repudiation” is nothing more than the Tolkien/HC Parties' assertion of their own  
19 rights under the parties' agreements in claims against the Warner Parties. The  
20 Court should read the omitted allegations into the Amended Counterclaim. Taken  
21 together, the original and amended allegations make clear that the Amended First  
22 Counterclaim is based entirely on conduct taken in anticipation of or in connection  
23 with this litigation. The Amended First Counterclaim thus fails as a matter of law.

24           Finally, the Warner Parties' Amended Second Counterclaim for Declaratory  
25 Relief is entirely duplicative of the Tolkien/HC Parties' Third and Fourth Claims  
26 for Declaratory Relief contained in their Complaint, as well as numerous of the  
27 Warner Parties' own affirmative defenses. This is not a proper use of the  
28 declaratory relief remedy.

For each of these independent reasons, the Motion to Dismiss should be granted in its entirety, with prejudice and without leave to amend.<sup>2</sup>

## **II. STATEMENT OF RELEVANT FACTS**

A detailed recitation of the relevant facts is set forth in full in the accompanying Special Motion to Strike. In the interests of brevity, those detailed facts will not be repeated here. Briefly, the relevant facts as alleged in the Warner Parties' Amended Counterclaim are:<sup>3</sup>

The Tolkien/HC Parties' predecessors-in-interest and the Warner Parties' predecessor-in-interest, United Artists Corporation ("United Artists"), entered into a pair of contemporaneously written contracts, dated as of July 8, 1969 (the "1969 Agreements") regarding, inter alia, certain motion picture rights in Professor Tolkien's literary works *The Lord of the Rings* and *The Hobbit* (the "Tolkien Works"). (FACC, ¶ 20).

The Warner Parties allege that pursuant to the 1969 Agreements, Zaentz and Warner Bros. obtained the rights to exploit online/downloadable video games and gambling games based on the Tolkien Works. (FACC, ¶¶ 3-4, 21-29). The Warner Parties further allege that "for years," and with the Tolkien/HC Parties' knowledge and consent, they (and Zaentz) have exploited online video games and gambling, and that the Tolkien/HC Parties have long known of and agreed to such exploitation. (FACC, ¶¶ 3-4, 21-29).

The Warner Parties further allege that to the extent the 1969 Agreements did not originally convey rights to Zaentz and the Warner Parties to online video games, the 1969 Agreements were amended in 1998 to include those rights by virtue of counsel for the Tolkien Estate's failure to object to and/or confirmation of such exploitation in 1998. (FACC, ¶¶ 33, 40).

<sup>2</sup> Zaentz has filed similar counterclaims, which are the subject of separate, concurrently-filed Motions to Dismiss and to Strike.

<sup>3</sup> Although the Tolkien/HC Parties do not concede the truth of the Warner Parties' alleged facts, for purposes of this Motion, they are assumed to be true as required by law.

1 The Warner Parties allege that in 2010, the parties reached an agreement (the  
2 “2010 Regrant Agreement”) in which the Tolkien/HC Parties and others revoked  
3 the rights granted under copyright laws pursuant to the 1969 Agreements and re-  
4 granted all the rights that had been previously granted, on the same terms and  
5 conditions as existed previously. (FACC, ¶ 32). Accordingly, the Warner Parties  
6 contend, the 2010 Regrant Agreement conveyed the rights to online video games  
7 and gambling games. (FACC, ¶¶ 33, 40). The Warner Parties further allege that  
8 they are an intended third-party beneficiary to the rights granted to Zaentz under the  
9 2010 Regrant Agreement. (FACC, ¶ 42).

10 There presently exists between the parties an actual controversy and dispute  
11 over whether the Warner Parties have the right to exploit video games accessible  
12 only online or through download and gambling games based on the Tolkien Works.  
13 (FACC, ¶ 47). The Tolkien/HC Parties deny that the Warner Parties have such  
14 rights. (FACC, ¶ 47). The Tolkien/HC Parties have sued the Warner Parties over  
15 their exploitation activities. (FACC, ¶ 48).

16 In their Original Counterclaim, the Warner Parties alleged that the  
17 Tolkien/HC Parties “have materially breached the 2010 Regrant Agreement” by  
18 “challenging Warner’s exploitation of the broad rights granted to Zaentz and  
19 Warner under the 2010 Regrant Agreement, which include online video games and  
20 gambling games, and denying that the 2010 Regrant Agreement conveyed the rights  
21 to exploit online video games and gambling games.” (Original Counterclaim, ¶  
22 43). The Warner Parties contended that the Tolkien/HC Parties’ assertion of their  
23 claims is unreasonable and in bad faith. (Original Counterclaim, ¶ 35).

24 Pursuant to Central District Local Rule 7-3, the parties met and conferred  
25 concerning the Motions to Dismiss and to Strike the Tolkien/HC Parties intended to  
26 file directed at the original counterclaims, and specifically discussed that the  
27 Warner Parties’ Original First Counterclaim was nothing more than a disguised,  
28 premature and defective claim for malicious prosecution and was barred by

California’s litigation privilege. Apparently recognizing the merits of the Tolkien/HC Parties’ intended motions, the Warner Parties voluntarily amended their counterclaims to try to escape dismissal. Attempting to obscure the defects in their pleading, the Warner Parties filed an amended pleading which simply omits the fatal allegations which proved their prior pleading defective, and replaced them with the word “repudiation”:

ORIGINAL COUNTERCLAIM	AMENDED COUNTERCLAIM
<p>“Counterclaim Defendants have materially breached the 2010 Regrant Agreement by, among other things, <b>challenging</b> Warner’s exploitation of the broad rights granted to Zaentz and Warner under the 2010 Regrant Agreement, which include online video games and gambling games, <b>and denying</b> that the 2010 Regrant Agreement conveyed the rights to exploit online video games and gambling games.” (Original Counterclaim, ¶ 43, emphasis added.)</p>	<p>“Counterclaim Defendants have materially breached the 2010 Regrant Agreement by, among other things, <b>repudiating</b> their broad grant of rights under the 2010 Regrant Agreement to Zaentz (which Zaentz then licensed to Warner), which provide for Warner’s exploitation of online video games and gambling games.” (FACC, ¶ 44, emphasis added.)</p>

Despite this semantic gamesmanship, the alleged breaching conduct by the Tolkien/HC Parties remains the same; the Tolkien/HC Parties’ so-called “repudiation” is nothing more than the Tolkien/HC Parties’ assertion of their own rights under the parties’ agreements made during pre-litigation and litigation communications, challenging the scope of the Warner Parties’ contractual rights.

### 1 **III. ARGUMENT**

#### 2 **A. The Warner Parties Have Not Pleaded Facts Sufficient to Support** 3 **a Claim for Breach of Contract.**

4 The Warner Parties allege that the Tolkien/HC Parties have breached the  
 5 1969 Agreements and the 2010 Regrant Agreement by repudiating them. For a  
 6 party to repudiate a contract, an “essential element [] is that the repudiation by the  
 7 promisor occur before his performance is due under the contract.” *Taylor v.*  
 8 *Johnston*, 15 Cal.3d 130, 137 (Cal. 1975). Furthermore, the repudiation must be  
 9 “an unqualified and positive refusal to perform and must go to *the whole of the*  
 10 *contract.*” *Gittlitz v. Lewis*, 212 N.Y.S.2d 219, 220 (N.Y. Sup. Ct. 1961) (emphasis  
 11 added). *See also, Taylor, supra*, at 140 (to constitute an express repudiation “the  
 12 refusal to perform must be of the whole contract”) (internal quotations omitted);  
 13 *Atkinson v. District Bond Co.*, 5 Cal.App.2d 738, 743 (1935) (“refusal to perform  
 14 *must be of the whole contract* or of a covenant going to the whole consideration”)  
 15 (emphasis added); *British Films Do Brasil, Ltda v. London Film Productions, Inc.*,  
 16 166 N.Y.S.2d 703, 706 (N.Y. Sup. Ct. 1957) (repudiation “must be entire, absolute  
 17 and unequivocal, covering the entire performance to which the contract binds the  
 18 promisor”).<sup>4</sup>

19 Here, there is no allegation that the Tolkien/HC Parties have failed to  
 20 perform in a manner going to the heart of the 1969 Agreements or the 2010 Regrant  
 21 Agreement, nor any contention that the Tolkien/HC Parties have manifested an  
 22 intent to “fully breach” the “entire” contract. To the contrary, the Warner Parties’  
 23 allegations, if taken as true as they must be for purposes of this Motion, establish  
 24 that the Tolkien/HC Parties have performed for decades and that Zaentz and the  
 25 Warner Parties have long enjoyed numerous lucrative contractual benefits. The  
 26 Warner Parties specifically allege that they obtained “broad rights” in the Tolkien

27 <sup>4</sup> The 1969 Agreements are governed by New York substantive law. The 2010  
 28 Regrant Agreement is governed by California substantive law. The law of the  
 forum, California, applies to procedural questions.



1 Works through the Tolkien/HC Parties, that they engaged in and exploited the  
2 “customary activities that movie studios traditionally pursue to make large-scale  
3 motion pictures both profitable and possible” and even that they have exploited the  
4 right to license online video games and gambling games based on the Tolkien  
5 Works for years, with the Tolkien/HC Parties’ purported knowledge and consent.  
6 (FACC, ¶¶ 3-4, 21-29, 35).

7 There can be no repudiation on the facts alleged. The difference of opinion  
8 between the parties over the scope of the rights licensed to the Warner Parties and  
9 Zaentz, and those contractually reserved by the Tolkien/HC Parties, cannot be read  
10 as evincing a refusal by the Tolkien/HC Parties to perform the entirety of the 1969  
11 Agreements or the 2010 Regrant Agreement or a breach which goes to the  
12 agreements’ very heart. Indeed, the Warner Parties can point to no affirmative and  
13 executory obligation of the Tolkien/HC Parties remaining to be performed. No  
14 performance whatsoever has been withheld from the Warner Parties; the Warner  
15 Parties’ own pleadings, on their face, allege that the entirety of the Tolkien/HC  
16 Parties’ required performance — the purported grant of rights based on the Tolkien  
17 Works — was completed more than four decades ago. The Warner Parties argue  
18 only that the Tolkien/HC Parties’ assertion that the Warner Parties have exceeded  
19 the scope of their license by exploiting gambling and Intangible Video Games  
20 violates the contractual duty of good faith and fair dealing. But as a matter of law,  
21 that does not constitute a “repudiation” of the entire contract.

22 Far from unequivocally repudiating the relevant agreements and treating  
23 them as at an end, the Tolkien/HC Parties here seek to enforce the parties’  
24 agreements, more specifically, the rights the Tolkien/HC Parties have expressly  
25 reserved under those agreements. (Warner Answer, ¶36.) The mere assertion of a  
26 claim that a party has exceeded the scope of certain contractually granted rights  
27 cannot be, and is not, a repudiation of the entirety of the contract. Nor does it  
28 constitute a breach.

1 The Warner Parties know full well that there has been no “repudiation” by  
2 the Tolkien/HC Parties; indeed, the Warner Parties did not even allege repudiation  
3 in their original counterclaim. It was only after the Tolkien/HC Parties discussed  
4 the merits of their intended Motions to Dismiss and to Strike that the Warner  
5 Parties amended their original pleading, and the word “repudiation” surfaced.

6 The Warner Parties’ manipulative pleading practices — by which they have  
7 attempted to eliminate from their amended pleading the allegations which show that  
8 the alleged breaches of contract all involve communications by the Tolkien/HC  
9 Parties made in anticipation of and in connection with the instant lawsuit — are  
10 wholly improper and are ineffective to avoid the negative consequences of their  
11 prior allegations. *See U.S. v. McKeon*, 738 F.2d 26, 31 (2d Cir. 1984) (“A party  
12 thus cannot advance one version of the facts in its pleadings, conclude that its  
13 interests would be better served by a different version, and amend its pleadings to  
14 incorporate that version, safe in the belief that the trier of fact will never learn of the  
15 change in stories”), *citing, Kunglig Jarnvagsstyrelsen v. Dexter & Carpenter, Inc.*,  
16 32 F.2d 195, 198 (2d Cir. 1929). *See also, Hendy v. Losse*, 54 Cal.3d 723, 742-43  
17 (Cal. 1991) (“Where a . . . complaint contains allegations destructive of a cause of  
18 action, the defect cannot be cured in subsequently filed pleadings by simply  
19 omitting such allegations without explanation. In such a case, the original defect  
20 infects the subsequent pleading so as to render it vulnerable” to a pleading motion)  
21 (internal citations omitted); *Unicom Systems, Inc. v. Electronic Data Systems,*  
22 *Corp.*, 2005 U.S. Dist. LEXIS 45707 at \*31 (C.D. Cal. 2005) (admission in original  
23 complaint, though excluded in amended complaint, is “strong evidence of that”  
24 admission). The Warner Parties are bound by the allegations they pleaded in their  
25 original counterclaim. *Andrews v. Metro North Committees Railroad Co.*, 882 F.2d  
26 705, 707 (2d Cir. 1989) (“The amendment of a pleading does not make it any the  
27 less an admission of the party”).

28 No matter how hard they try to mask it, the so-called “repudiation” alleged in



the Amended Second Counterclaim is nothing more than the Tolkien/HC Parties’ assertion of legal claims regarding the scope of the parties’ respective rights under the relevant agreements — conduct which, as is set forth more fully below and in the concurrently filed Special Motion to Strike, is absolutely privileged under California Civil Code § 47(b). In other words, the only alleged “threat” to the Warner Parties’ exploitation of their rights is the present litigation, which creates the possibility (indeed, plaintiffs contend, the likelihood) that there will be a judicial determination that gambling games and Intangible Video Games were not among the rights licensed to Zaentz and the Warner Parties, but were instead expressly reserved to the Tolkien/HC Parties by contract. The original and amended counterclaims, taken together, demonstrate unequivocally that the Warner Parties have sued the Tolkien/HC Parties for suing the Warner Parties and for seeking to enforce their contractual rights.

The Warner Parties’ novel theory of liability is not the law, and it runs directly contrary to California’s strong public policy protecting communications made in connection with litigation, regardless of the litigant’s motives or intent. *See Silberg v Anderson*, 50 Cal.3d 205, 218-220 (1990); *Abraham v. Lancaster Community Hospital*, 217 Cal.App.3d 796, 812-814 (1990). The Warner Parties can point to no California case in which the implied covenant of good faith and fair dealing has been extended to the litigation of contract claims and defenses, to preclude a party from asserting a claim based on a disagreement over the scope of a particular license.

The Tolkien/HC Parties’ attempt to enforce their contractual rights through the filing of the present lawsuit simply is not actionable. The trier of fact will determine the scope of the parties’ rights under the relevant agreements. If the Tolkien/HC Parties are found to be correct in their legal assertions, their rights will be enforced and the Warner Parties must cease their infringing and extra-contractual conduct. If the Warner Parties are found to be correct, Zaentz and the

Warner Parties can continue to exploit gambling games and Intangible Video Games and the Warner Parties can attempt to file a malicious prosecution action at the appropriate time, assuming they can meet the stringent pleading requirements of that tort (they will not). What the Warner Parties cannot do, however, is assert a breach of contract counterclaim for damages based on the Tolkien/HC Parties' claims against the Warner Parties (despite their unsupported allegations of bad faith), simply by invoking the concept of "repudiation." For this independent reason, the Motion to Dismiss should be granted.<sup>5</sup>

**B. The Warner Parties' Contrived Breach of Contract Claim Constitutes an Improper Attempt to Make an End Run Around the Stringent Malicious Prosecution Standards.**

Although characterized as a claim for breach of contract, at its core the Amended First Counterclaim is really nothing more than a thinly-veiled, deficient claim for malicious prosecution — the Warner Parties are challenging the Tolkien/HC Parties' substantive motivation for pursuing the instant litigation. The Warner Parties, of course, cannot satisfy the stringent pleading requirements of such a claim.<sup>6</sup> At the very minimum, that tort claim would be premature, in that the Warner Parties cannot possibly allege that the action has terminated in their favor

<sup>5</sup> That the Warner Parties have pleaded unsubstantiated legal conclusions such as that the Tolkien/HC Parties' "assertion that Warner and Zaentz do not have these rights is not reasonable and, upon information and belief, was not asserted in good faith" or that the Tolkien/HC Parties are "simply attempting to extract additional huge sums of money" (FACC ¶ 35) does not alter this conclusion. The court need not accept as true allegations that are legal conclusions, even if cast in the form of factual allegations. *E.g. In re Cypress Semiconductor Securities Litigation*, 864 F.Supp. 957, 958 (N.D. Cal. 1994), *citing Papasan v. Allain*, 478 U.S. 265, 286, 106 S.Ct. 2937, 2944, 92 L.Ed.2d 209 (1986). "Conclusory allegations of law and unwarranted inferences are insufficient to defeat a motion to dismiss for failure to state a claim." *In re Verifone Securities Litigation*, 11 F.3d 865, 868 (9th Cir. 1993).

<sup>6</sup> An action for malicious prosecution requires the plaintiff to establish that a prior action (1) was commenced by or at the direction of the defendant and was pursued to a legal termination favorable to the plaintiff (2) was brought without probable cause; and (3) was initiated with malice. *Oren Royal Oaks Venture v. Greenberg, Bernhard, Weiss & Karma, Inc.*, 42 Cal.3d 1157, 1170 (1986), *citing Bertero v. National General Corp.*, 13 Cal.3d 43, 50 (1974).

— this case is in its infancy.

Plain and simple, under California law the Warner Parties have no present, viable claim for relief against the Tolkien/HC Parties for suing the Warner Parties or asserting claims against them, even if done in “bad faith” (which the Tolkien/HC Parties dispute in any event). The sole remedy available to the Warner Parties for the conduct alleged (apart from Rule 11 sanctions) is a potential future claim for malicious prosecution. *See Abraham, supra*, at 824-825; *Oren Royal Oaks Venture v. Greenberg, Bernhard, Weiss & Karma, Inc.*, 42 Cal.3d 1157, 1169 (1986).

Perhaps motivated by an attempt to gain some tactical leverage in the case, and/or — equally likely — because the Warner Parties recognize that the Tolkien/HC Parties will ultimately prevail in this case, the Warner Parties do not want to wait until this action is concluded to assert their alleged claim. The courts, however, have consistently rejected similar attempts by litigants to avoid the protective restrictions placed on pleading malicious prosecution simply by changing the label of the asserted claim for relief. *E.g. Oren Royal Oaks Venture*, 42 Cal.3d at 1169; *see also Pacific Gas & Electric Co. v. Bear Stearns & Co.*, 50 Cal.3d 1118, 1131, 1137 (1990) (“[u]nder existing law, the only common law tort claim that treats the instigation or bringing of a lawsuit as an actionable injury is the action for malicious prosecution.”); *Ramona Unified School Dist. v. Tsiknas*, 135 Cal.App.4th 510, 520-522 (2005) (where gravamen of claim asserts party was injured by the initiation or continued pursuit of meritless litigation for malicious purposes, the label of the claim must be disregarded and claim treated as one for malicious prosecution); *Drasin v. Jacoby & Meyers*, 150 Cal.App.3d 481, 485 (1984) (even if legal malpractice complaint amounted to attempt to coerce settlement, mere filing of complaint, without some more substantial use or misuse of judicial process, did not amount to abuse of process). As the Supreme Court in *Oren Royal Oaks Venture* explained:

“The elements of the common law malicious-prosecution cause of

1 action have evolved over time as an appropriate accommodation  
2 between the freedom of an individual to seek redress in the courts and  
3 the interest of a potential defendant in being free from unjustified  
4 litigation. In order to avoid an improper ‘chilling’ of the right to seek  
5 redress in court, the common law provides that to prevail in a tort  
6 action for malicious prosecution a party must demonstrate ‘that the  
7 prior action (1) was commenced by or at the direction of the defendant  
8 and was pursued to a legal termination in his ... favor ...; (2) was  
9 brought without probable cause ...; and (3) was initiated with  
10 malice....’ [citation omitted].” 42 Cal.3d at 1169-70 (emphasis added).

11 The Court reasoned that the elements necessary to state a malicious  
12 prosecution claim strike the appropriate balance between the right to seek judicial  
13 relief and the right to be free from unjustified litigation. *Id.*; see *Ramona Unified*,  
14 *supra*, at 521. Because the prescribed elements of malicious prosecution — such as  
15 obtaining a favorable termination or lack of probable cause — play “a crucial role  
16 in protecting the right to seek judicial relief,” courts have refused to abrogate such  
17 elements by expanding other causes of action to encompass the alleged improper or  
18 bad faith filing of a lawsuit. *Oren, supra*, at 1169-1170.

19 The Warner Parties’ transparent efforts to avoid the stringent malicious  
20 prosecution standards by disguising their claim as one for breach of contract  
21 likewise should be rejected. Although *Pacific Gas & Electric* and *Oren Royal Oaks*  
22 *Venture* and their progeny involved mislabeled tort claims, the Court’s reasoning  
23 applies with equal force to the manufactured contract claim asserted here. If the  
24 filing of an action for an allegedly improper or bad faith purpose were itself  
25 sufficient to give rise to a breach of contract claim (other than a breach of a  
26 covenant not to sue), the “lack-of-probable-cause” element and other protections  
27 inherent in the elements applicable to a malicious prosecution claim would be  
28 completely negated.

Allowing the Warner Parties’ purported Amended First Counterclaim to  
stand would allow every defendant in a breach of contract case to counterclaim for  
supposed “repudiation” based on the plaintiff’s claim alone. See *Babb v. Superior*  
*Court*, 3 Cal.3d 841, 846-847 (1971) (“Abolition of the requirement that malicious

prosecution suits be filed as separate actions after termination of the main litigation would surely increase the incidence of such suits, since filing a cross-action requires less time, expense and preparation than does initiation of a separate action”). Indeed, under the Warner Parties’ reasoning, the Tolkien/HC Parties should now be allowed to amend their Complaint to state an additional new claim against the Warner Parties for breach of the implied covenant, since the Tolkien/HC Parties contend that the Warner Parties *know* the Tolkien/HC Parties asserted their claims in good faith, that the Warner Parties are the parties acting in bad faith and that the Amended First Counterclaim is merely a meritless defensive ploy designed to delay and harass. This, obviously, is an untenable situation and thankfully, it is not the law.<sup>7</sup>

Because the Warner Parties’ Amended First Counterclaim is nothing more than a thinly disguised malicious prosecution claim — the Warner Parties contend that the Tolkien/HC Parties asserted their claims unreasonably and in bad faith — the claim fails as a matter of law. The Warner Parties cannot possibly satisfy the pleading requirements of a malicious prosecution claim, including the requirement that a prior action terminated in their favor. Indeed, this defect cannot be cured by amendment because the Warner Parties cannot possibly obtain a favorable termination until this case is over. *See e.g. Babb*, 3 Cal.3d at 846. Accordingly, for

<sup>7</sup> Other jurisdictions are in accord. *See Ford Motor Co. v. Obsolete Ford Parts, Inc.*, 318 F.Supp.2d 516, 518-520 (E. Dist. Mich. 2004)(granting motion to dismiss counterclaims for tortious breach of contract and other torts based on alleged bad faith demand letters and trademark infringement claim; counterclaim, although labeled otherwise, was a disguised malicious prosecution claim but defendant could not satisfy the essential element of a prior favorable ruling); *Baker Driveway Co., Inc. v. Bankhead Enterprises*, 478 F.Supp. 857, 859-60 (E. D. Mich. 1979) ) (cited with approval by the California Supreme Court in *Pacific Gas & Electric and Oren Royal Oaks Venture*) (dismissing intentional interference claim alleging that defendants intervened in a Patent Office proceeding regarding plaintiff’s patent application despite knowing that their actions were legally groundless as a disguised malicious prosecution which was premature because the pending administrative proceeding had not yet concluded); *C.B.C. Enter., Inc. v. United States*, 24 Cl.Ct. 1 (Cl.Ct. 1991) (in which the United States Claims Court dismissed the plaintiffs’ claim for breach of the implied covenant of good faith and fair dealing, finding that despite the label, the breach allegations substantively amounted to a claim for malicious prosecution and abuse of process).



1 this independent reason, the Motion to Dismiss should be granted without leave to  
2 amend.

3  
4  
5 **C. The Purported Conduct Upon Which the Warner Parties Base**  
6 **Their Claim is Absolutely Privileged.**

7 As is discussed in detail in the accompanying Special Motion to Strike, the  
8 Warner Parties' allegations involve communications that concern this litigation,  
9 were made in anticipation of this litigation, and were made to parties interested in  
10 this litigation. The purported conduct about which the Warner Parties complain is  
11 thus privileged under California Civil Code § 47(b). Section 47(b) provides an  
12 absolute privilege for any communications made in, or in connection with, judicial  
13 proceedings. *Dove Audio, Inc. v. Rosenfeld Meyer & Sussman*, 47 Cal.App.4th  
14 777, 784 (1996); *Digerati Holdings, LLC v. Young Money Entertainment, LLC*, 194  
15 Cal.App.4th 873, 887-888 (2011). The privilege is an absolute bar to claims other  
16 than malicious prosecution. *Hagberg v. California Federal Bank*, 32 Cal.4th 350,  
17 360 (2004). The privilege applies both to filings in a lawsuit and to  
18 communications preliminary to a proposed judicial proceeding (such as a demand  
19 letter). *Dove Audio*, 47 Cal.App.4th at 781.

20 Courts interpreting the privilege have given it an expansive reach, holding  
21 that the privilege is absolute, even if the result is inequitable. *See Abraham*, 217  
22 Cal.App.3d at 813 (privilege is absolute and is unaffected by a defendant's  
23 motives); *Microsoft Corp. v. BEC Computer Co., Inc.*, 818 F.Supp. 1313, 1319  
24 (C.D. Cal. 1992) ("[E]ven the filing of improper or meritless pleadings, with an  
25 ulterior purpose, is privileged"). Any doubt as to whether the privilege applies  
26 should be resolved in favor of applying it. *Morales v. Cooperative of American*  
27 *Physicians, Inc.*, 180 F.3d 1060, 1062 (9th Cir. 1999); *Adams v. Superior Court*, 2  
28 Cal.App.4th 521, 531 (1992). Courts have applied the litigation privilege to breach

1 of contract cases when its application furthers the purposes behind the privilege.  
2 *Wentland v. Wass*, 126 Cal.App.4th 1484, 1492 (2005).

3 From the face of the Amended First Counterclaim, all of the acts which  
4 allegedly damaged the Warner Parties are communications made during the course  
5 of, or preparatory to, this lawsuit. The Warner Parties allege that the Tolkien/HC  
6 Parties' claims are "not reasonable" and "not asserted in good faith." (FACC, ¶ 35)  
7 Moreover, the Warner Parties' original allegations, which the Warner Parties  
8 cannot escape, contended that the Tolkien/HC Parties have asserted these rights  
9 nevertheless, thereby "challenging Warner's exploitation of the broad rights granted  
10 to Zaentz and Warner Bros. under the 2010 Regrant Agreement, which include  
11 online video games and gambling games, and denying that the 2010 Regrant  
12 Agreement conveyed the rights to exploit online video games and gambling  
13 games." (Original Counterclaim, ¶ 43).

14 All of these allegations describe purported conduct made in connection with,  
15 or preparatory to, this litigation. The Warner Parties now omit the original  
16 allegations, replacing "challenging Warner's exploitation" with "repudiation." But  
17 the purported conduct remains the same, and it is precisely the type of conduct that  
18 the litigation privilege was designed to protect: the Tolkien/HC Parties' assertion of  
19 their claims in anticipation of filing this lawsuit and in this very lawsuit itself.

20 Moreover, both the Original and Amended Counterclaim expressly allege  
21 that the Tolkien/HC Parties have sued the Warner Parties over the Warner Parties'  
22 exploitation activities, and acknowledge that there is a dispute among the parties in  
23 that the Warner Parties claim the right to exploit gambling games and video games  
24 accessible only online or through download based on the Tolkien Works and the  
25 Tolkien/HC Parties deny that the Warner Parties have such rights. (FACC, ¶ 47,  
26 48).

27 Plainly, the purported conduct alleged by the Warner Parties is simply and  
28 absolutely privileged. Thus, for this independent reason as well, the Motion to

Dismiss the Amended First Counterclaim should be granted without leave to amend.

**D. The Warner Parties' Amended Second Counterclaim for Declaratory Relief is Redundant and Superfluous.**

The Court's authority under The Declaratory Judgment Act is entirely discretionary – giving Courts “the authority to declare the rights and legal relations of interested parties, but not a duty to do so.” *Allstate Insurance Co. v. Pira*, 2012 U.S. Dist. LEXIS 77234 at \*15 (N.D. Cal. 2012) (internal citations omitted). Courts consistently use that discretion to dismiss counterclaims for declaratory relief which “are either the ‘mirror image’ of claims in the complaint or redundant of affirmative defenses.” *Id.*; *see also Englewood Lending, Inc. v. G&G Coachella Investments, LLC*, 651 F.Supp.2d 1141, 1145-1147 (C.D. Cal. 2009) (dismissing two counterclaims seeking declaratory relief as redundant in light of plaintiff's claims and unnecessary due to defendant's affirmative defenses); *Resolution Trust Corp. v. Ryan*, 801 F. Supp. 1545, 1556 (S.D. Miss. 1992) (finding “redundant and moot” defendants' counterclaims seeking an adjudication that they did not violate the duties they were alleged to have violated in plaintiffs' complaint); *Berger v. Seyfarth Shaw, LLP*, 2008 U.S. Dist. LEXIS 93496 at \*6-7 (N.D. Cal. 2008) (dismissing three “entirely redundant” declaratory relief counterclaims duplicative of defendant's affirmative defenses). *See also Stickrath v. Globalstar, Inc.*, 2008 U.S. Dist. LEXIS 95127 at \*15-24 (N.D. Cal. 2008)<sup>8</sup> (striking as “superfluous” defendant's declaratory relief counterclaim because duplicative of already alleged affirmative defense); *Daily v. Federal Insurance Co.*, 2005 U.S. Dist. LEXIS 46001 at \*14-21 (N.D. Cal. 2005) (striking declaratory relief counterclaims regarding determination of insurance non-coverage as duplicative of plaintiff's declaratory

<sup>8</sup> To the extent the Court may be inclined to find some portion of the Warner Parties' counterclaims remains viable, the Court may strike all other redundant and/or inappropriate portions pursuant to F.R.C.P. 12(f).



1 relief claim regarding coverage); *Green Bay Packaging, Inc. v. Hoganson &*  
2 *Assocs., Inc.*, 362 F. Supp. 78, 82 (N.D. Ill. 1973) (holding that counterclaim for  
3 declaratory relief which seeks a declaration as to claims already before the court  
4 was “repetitious and unnecessary” and should be stricken).

5 Indeed, declaratory relief was not created to allow a defendant to  
6 manufacture an affirmative claim out of defenses to a suit which has already been  
7 filed. The “central purpose of the Declaratory Judgment Act . . . is to provide the  
8 opportunity to clarify rights and legal relationships without waiting for an adversary  
9 to file suit.” *Fireman’s Fund Ins. Co. v. Ignacio*, 860 F.2d 353, 354 (9th Cir.  
10 1988). Nor is the purpose of a declaratory judgment to provide for the resolution of  
11 a dispute which is not already the subject of pending litigation. “[T]he fact that  
12 another action, involving substantially the same issue, is pending in a state or  
13 federal court is a potent factor in discretionary refusal to assume jurisdiction” of a  
14 declaratory judgment claim. *Id.*

15 Not only are the issues underlying the Warner Parties’ purported declaratory  
16 relief claim pending in “a state or federal court,” they are at issue in this very  
17 action. Thus, for example, the Warner Parties “request a declaration of this Court  
18 setting forth the respective rights and other legal relations of Warner and  
19 Counterclaim Defendants.” (FACC, ¶ 49). In their Complaint, the Tolkien/HC  
20 Parties request exactly the same relief (Complaint, ¶ 79: “plaintiffs hereby request a  
21 declaration of this Court under the provisions of 28 U.S.C. § 2201, setting forth the  
22 respective rights and other legal relations of plaintiffs and defendants.”). The  
23 Warner Parties specifically request the following six declarations, all of which are  
24 already before the Court in connection with the Tolkien/HC Parties’ declaratory  
25 relief claims and/or the Warner Parties’ affirmative defenses:

26 (1) “Warner may exercise its rights to exploit online video games based on  
27 the Works” (FACC, ¶ 49(a)): This will be litigated in connection with the  
28 Tolkien/HC Parties’ Third Claim for Declaratory Relief (Complaint, ¶¶ 78-79).

(2) “Warner may exercise its rights to exploit gambling games based on the Works” (FACC, ¶ 49(b)): This will be litigated in connection with the Tolkien/HC Parties’ Third Claim for Declaratory Relief (Complaint, ¶¶ 78-79).

(3) “Counterclaim Defendants are estopped from challenging Warner’s exploitation of online video games (FACC, ¶ 49(c)): This will be litigated in connection with the Tolkien/HC Parties’ Third Claim for Declaratory Relief (Complaint, ¶¶ 78-79). It is also an unnecessary restatement of the Warner Parties’ Eighth Affirmative Defense (Answer, ¶ 95).

(4) “Counterclaim Defendants are estopped from challenging Warner’s exploitation of gambling games (FACC, ¶ 49(d)): This will be litigated in connection with the Tolkien/HC Parties’ Third Claim for Declaratory Relief (Complaint, ¶¶ 78-79). It is also an unnecessary restatement of the Warner Parties’ Eighth Affirmative Defense (Answer, ¶ 95).

(5) “Counterclaim Defendants are precluded from asserting any claims based on conduct occurring prior to September 30, 2008” (FACC, ¶ 49(e)): This is a superfluous restatement of the Warner Parties’ Eleventh Affirmative Defense. (Answer, ¶ 98). It also necessarily will be litigated in connection with the Tolkien/HC Parties’ Third and Fourth Claims for relief.

(6) “Counterclaim Defendants are precluded from asserting any claims based on conduct occurring prior to September 1, 2010” (FACC, ¶ 49(f)): This is a superfluous restatement of the Warner Parties’ Eleventh Affirmative Defense. (Answer, ¶ 98). It also necessarily will be litigated in connection with the Tolkien/HC Parties’ Third and Fourth Claims for relief.

Each of the judicial declarations which the Warner Parties’ seek is already before the Court; all are therefore redundant. The Warner Parties should not be permitted to state superfluous claims for relief simply for the sake of stating a counterclaim or being a counterclaimant. Because the Warner Parties’ Amended Counterclaim for Declaratory Relief is entirely duplicative of issues already in the

1 case, it should be dismissed without leave to amend.

2 **IV. CONCLUSION**

3 The Warner Parties' Amended First Counterclaim fails to present any  
4 legitimate, actionable claim for relief and appears to have been filed solely as a  
5 litigation tactic in response to meritorious claims asserted against them by the  
6 Tolkien/HC Parties. The Warner Parties' Amended Second Counterclaim is  
7 duplicative and unnecessary. For all the foregoing reasons, the Amended  
8 Counterclaim should be dismissed in its entirety, without leave to amend.

9  
10 DATED: March 28, 2013

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